



San Jose Fire Fighters • Local 230

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San Jose Firefighters, IAFF Local 230 Settlement Proposal February 11th 2011

SUMMARY

1. Term July 2009 to June 2013
2. Employees will contribute an additional 6.00% of pensionable compensation to offset City's pension contribution during FY 2011-2012 and FY 2012-2013.
3. Implement health care plan benefit changes, similar to the POA's health plan changes.
4. Implement Retiree Healthcare Prefunding (GASB)
5. Vacation Slot Reduction / Accrual Cap Payoff / Vacation Sell Back
6. Add Firefighter Bill of Rights provisions
7. Renegotiate Supplemental Retiree Benefit Reserve (SRBR) payment methodology
8. Full reform of pension & retirement health benefits for all new-hires to levels similar to those in effect before year 2000
9. No other changes or special conditions versus the current MOA

1. TERM

- The term of the agreement will be July 1, 2009 thru June 30, 2013

2. WAGES

2009/2010

- 0 % wage increase.

\$1,413,678 City Savings

2010/2011

- 0 % wage increase.

\$1,413,678 City Savings

2011/2012

- 0 % wage increase **\$1,413,678 City Savings**
- All unit employees will contribute an amount equal to 6.0 % of their pensionable compensation as additional contributions to the retirement plan.

\$4,877,435 City Savings

2012/2013

- 0 % wage increase. **\$1,413,678 City Savings**
- All unit employees will contribute an amount equal to 6.0% of their pensionable compensation as additional contributions to the retirement plan.

\$5,170,081 City Savings

- All 6.0% contributions shall terminate effective the last full pay period of June 2013.

Each active member of SJFF will pay a portion of their compensation toward their own retirement. Any amount paid will be credited toward that individual's personal retirement contribution account, and be calculated as such in the event of any action (e.g. resignation, termination, etc.) that results in any payout of that individual's personal retirement contributions. Any amount paid will be calculated as an offset against the City's pension contribution for that person, permitting the City to reduce its pension contribution expense by an identical amount. The portion will be 6.0% of pensionable compensation. Pensionable compensation is understood to include any amounts that are credited toward an individual's retirement, including base pay, EMT pay, base FLSA pay, holiday in-lieu pay, and anti-terrorism training pay. This will be effective 7/1/2011 and continue through 6/30/2013 at which time it will expire.

For purposes of future negotiations/arbitrations the parties agree that the compensation level established by this agreement does not necessarily place Local 230 members in the appropriate labor market position.

3. HEALTH CARE PREMIUM COST SHARING

\$ 904,000 Year 1 / \$949,200 Year 2 City Savings

No later than July 1, 2011, the city shall pay 85% of the full premium cost of the lowest priced plan for employee or employee and dependent coverage, and the employee will pay 15% of the premium for the lowest priced plan for employee or employee and dependent coverage.

If an employee selects a plan other than the lowest priced plan, the employee shall pay the difference between the total cost of the selected plan and city's contribution towards the lowest priced plan for employee or employee and dependent coverage

- **Health Care Increased Co-Pays**

Effective no later than July 1, 2011, co-pays for all available HMO plans shall be as follows:

- a. Office Visit Co-pay shall be increased to \$25
- b. Prescription Co-pay shall be increased to \$10 for generic and \$25 for brand name
- c. Emergency Room Co-pay shall be increased to \$100
- d. Inpatient/Outpatient procedure Co-pay shall be increased to \$100

- **Payment In-Lieu of Health and Dental Insurance**

Effective no later than July 1, 2011, employees who qualify for and participate in the payment-in-lieu of health and/or dental insurance program will receive the following per pay period:

	Health In-Lieu	Dental In-Lieu
If eligible for family coverage:	\$221.84	\$19.95
If NOT eligible for family coverage:	\$89.09	\$19.95

- **Dual Coverage Reduction**

Effective no later than July 1, 2011, an employee may not be simultaneously covered by City provided medical benefits as a City employee, and as a dependent of another City employee.

Effective no later than July 1, 2011 an employee may not be simultaneously covered by City provided dental benefits as a City employee, and as a dependent of another City employee.

4. INCREASE RETIREE HEALTH CARE PRE-FUNDING (GASB-45 PAYMENTS)

Effective July 1, 2011, transition from the current partial pre-funding of fire retiree medical and dental healthcare benefits (current "policy method") to pre-funding of the full Annual Required Contribution (ARC) for the fire retiree healthcare benefits plan ("Plan").

The transition will be accomplished by phasing into fully funding the ARC over a period of 5 (five) years beginning July 1, 2011. The Plan's initial unfunded retiree healthcare liability will be amortized over a thirty-year period so that it will be paid by June 30, 2041 (closed amortization).

Amortization of changes in the unfunded retiree healthcare liability other than the initial retiree healthcare liability (e.g. gains, losses, changes in actuarial assumptions, etc.) shall be determined by the Plan's actuary. The City and Plan members (active employees) will contribute to funding the ARC medical benefits in a one-to-one ratio, and the City and Plan members will contribute to funding the ARC dental benefits in a three-to-one ratio.

The Plan actuary will use the Entry Age Normal (EAN) actuarial cost method and a discount rate consistent with the pre-funding policy for the Plan. The Municipal Code and/or applicable plan documents will be amended in accordance with the above agreement.

The phase-in will be divided into five straight-line steps, each to be effective on the first pay period of the City's fiscal year in each succeeding year. The first incremental of the phase-in will be effective July 1, 2011. It is understood that future valuations may increase or decrease the amount of change each year.

A qualified VEBA trust ("VEBA Trust") will be established by the City before July 1, 2011. The VEBA Trust will be the sole vehicle funding vehicle for Fire retiree healthcare benefits, subject to any legal restrictions under the current plan or other applicable law.

5. VACATION AVAILABILITY SLOT REDUCTION / VACATION ACCRUAL CAP / VACATION SELL BACK

\$871,000 minimum per year City Savings

- Effective July 1, 2011 through June 30, 2013 Vacation slot availability shall be reduced by 3 positions for the following ranks assigned to the 56 hour schedule. Captain, Fire Engineer, Firefighter.
- Effective July 1, 2011 through June 30, 2013 Vacation slot availability shall be reduced by 1 position for the Battalion Chief rank assigned to the 56 hour schedule.
- Effective July 1, 2011 through June 30, 2013 Vacation accrual caps shall be lifted and all hours over the double accrual rate limits shall be paid at the straight time rate upon written request.
- Effective July 1, 2011 through June 30, 2013, employees may elect to sellback up to 120 vacation hours at the straight time rate upon written request.

6. FIREFIGHTER BILL OF RIGHTS (AB220)

No Cost to City

Effective immediately the City and Local 230 shall incorporate into Article 20 of the MOA the "Firefighter Bill of Rights" as mandated by California State Law (AB 220).

7. SUPPLEMENTAL RETIREE RESERVE BENEFITS (SRBR) PAYMENT METHODOLOGY

Effective immediately, Local 230 agrees to meet and negotiate a revision to the SRBR payment methodology. Components of the Local 230 agreement would include: 1) Excluding all current active members from possible inclusion in the plan's payment methodology when they retire; 2) Revising the formula to direct all SRBR benefit payments to those retirees with the greatest need; 3) Clarifying plan language regarding payment calculations and timing.

8. PENSION REFORM – TWO TIER RETIREMENT

Real Reform – Normal Cost Reduction for Prospective Employees

For all applicable members hired after the effective date of this contract, Local 230 agrees to full pension reform by turning back the clock on pension benefits.

Local 230 understands this to include the following specific changes:

- Maximum retirement benefit 75% of final average salary
- 2.5% per year for years 1 -30
- Final average salary to be calculated as the highest annual average of the final 36 months.
- Retiree Cost of Living Adjustment (COLA) calculated to match the CPI index rate up to a maximum of 3.0%
- Supplemental Retirement Benefit Reserve benefit closed to new members.
- The retiree medical benefit will be defined as the minimum plan amount paid to active members at the time the employee retires without future increases.

9. STATUS QUO MOA

No other changes to the current MOA or stipulations, such as job guarantees, rehire guarantees, or station / apparatus closure guarantees.

Total Package Savings to City \$ 19,297,428

This is a package proposal. This package proposal is submitted in an attempt to reach a settlement in these extraordinary economic circumstances facing the City. This does not concede Local 230's position on "Market Placement." In the event the package proposal is not accepted, Local 230 reserves the right to modify or amend any future proposals, including, but not limited to, the effective dates of the specific changes. In the event of interest arbitration, final proposals are not limited to and need not reflect the issues or proposals made during bargaining.

Jeff Welch
President

| San Jose Firefighters, IAFF Local 230

Local 230 Estimated Value Proposal as of February 11, 2011

	2009-10	2010-11	2011-12	2012-13	Total	Comments
Point 1 Term July 1, 2009 thru June 30, 2013						
Point 2 Term - 0%	\$ 1,413,678	\$ 1,413,678	\$ 1,413,678	\$ 1,413,678	\$ 5,654,712	Credit available to City per Segal Valuation memo dated 6/30/2010
6% more for retirement			\$ 4,877,435	\$ 5,170,081	\$ 10,047,516	Based on Sal/Fringe report provided by BAS as of 1/5/11 Sal/Fringe retirement amount increased to reflect new 56% contribution rate in 11-12
Point 3 Health Care Changes			\$ 904,000	\$ 949,200	\$ 1,853,200	City's \$837,000 estimate increased by 8% to reflect new health care rates
Point 4 Health Care Prefunding						
Point 5 Vacation spot reduction/Vacation Sell Back			\$ 871,000	\$ 871,000	\$ 1,742,000	Fire Department estimate
Point 6 FBOR			\$ -	\$ -	\$ -	
Point 7 Renegotiate SRBR			\$ -	\$ -	\$ -	
Point 8 Salary Re-Opener Clause			\$ -	\$ -	\$ -	
Point 9 2 Tier Retirement			\$ -	\$ -	\$ -	
Point 10 MOA Status Quo			\$ -	\$ -	\$ -	
Total	\$ 1,413,678	\$ 1,413,678	\$ 8,066,113	\$ 8,403,959	\$ 19,297,428	
11-12 Total Personal Services Budget			\$ 130,647,699	\$ 141,099,514		
Proposal % of Total Compensation			6.17%	5.96%		

City of San Jose Police and Fire Department
Retirement Plan (Pension Plan Only)

*Actuarial Valuation and Review
as of June 30, 2010*

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SECTION 2: Valuation Results for the San Jose Police and Fire Department Retirement Plan

The contribution rates as of June 30, 2010 are based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

Reconciliation of Recommended Contribution
The chart below details the changes in the recommended contribution from the prior valuation to the current year's valuation.

CHART 14

Reconciliation of Recommended Employer Contribution from June 30, 2009 to June 30, 2010 (Dollar Amounts in Thousands)

Recommended Average Employer Contribution Rate as of June 30, 2009 ⁽²⁾	Estimated Annual	
	Contribution Rate	Dollar Cost ⁽¹⁾
1. Effect of investment losses ⁽³⁾	39.48%	\$99,130
2. Effect of contributions less than expected due to one year delay between rate calculation and rate implementation	5.00%	\$12,541
	1.78%	4,481
3. Effect of lower than expected salary increases	(1.20)%	(3,021)
4. Effect of increase in UAAL rate from aggregate payroll increase less than 4.25%	0.78%	1,958
5. Effect of gain due to more deaths than expected among retirees/beneficiaries	(0.15)%	(386)
6. Effect of loss from more service retirements offset by fewer disability retirements ⁽⁴⁾	0.19%	478
7. Effect of other experience gains ⁽⁵⁾	(0.22)%	(542)
8. Effect of reduction in investment return assumption	4.78%	11,983
Subtotal	10.96%	\$27,492
Recommended Average Employer Contribution Rate as of June 30, 2010 ⁽⁶⁾	50.44%	\$126,622

- (1) Based on June 30, 2010 projected annual payroll of \$251,058,473.
- (2) Before applying the change to the SRBR to reduce the contribution rate by 0.45% of pay for 2010/2011 only.
- (3) Return on valuation assets for the year ended June 30, 2010 was 2.18% and less than the 8.00% assumed in the valuation.
- (4) These amounts may not fully reflect actual experience because the data required to analyze the number of service retirements that may subsequently be reclassified as disability retirements is not available.
- (5) Other differences in actual versus expected actuarial experience.
- (6) Before applying the change to the SRBR to reduce the contribution rate by 0.49% of pay for 2011/2012 only.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

BOLTON PARTNERS, INC.

DRAFT

January 12, 2011

Via Email & U.S. Mail

Jeff Welch
President
San Jose Fire Fighters, Local 230
425 E. Santa Clara Street, Suite 300
San Jose, CA 95113

*Re: Pension Cost Savings Related to No
Wage Increases*

Dear Jeff,

I have been asked to look at the pension savings associated with the fact that there have been no across the Board pay increases for fire fighters in the last two years. To make my estimate I depended on Segal's most recent Actuarial Valuation Report (as of June 30, 2010) as it pertains to the pension cost for the City of San Jose Fire Fighters. My understanding is that this report shows the most recently available plan costs and assumptions used to calculate these costs.

While the fire fighters have not had any wage increases for the past two years, the report assumes that there is an assumed 4.25% salary increase each year (3.5% of inflation and 0.75% real wage growth; see page 32 of Segal report). We were able to estimate the annual pension cost savings resulting from no salary increases in a single year would be approximately \$1.4 million. The fact that some fire fighters might have experienced step increases during this time is irrelevant since there is a separate assumption in the Segal report for such increases (ranging from 1% to 5% per year).

To calculate this \$1.4 million increase, we used information from the aforementioned report combined with our assumption that 10% of fire fighters retired during this time and were not impacted. The report does not show the fire fighters' share of the actuarial liability, but from the total liability (of both police and fire fighters) we were able to estimate it by using the payroll breakdown shown in the report. From there, we simply adjusted actuarial liability using the report's 4.25% salary increase assumption (for two years of no salary increases), assumed 10% would retire and just amortized this

Bolton Partners, Inc.

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Actuarial, Benefit and Investment Consultants

Jeff Welch
January 12, 2011
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pension cost savings to get the annual pension cost savings resulting from not receiving a salary increase.

My calculation of this \$1.4 million savings relies on the breakdown of current police and fire fighter actuarial liability being similar to the breakdown of police and fire fighter payroll as shown in the report. While the Plan's actuary could come up with a more exact estimate, the above should suffice for bargaining purposes. This seems consistent with the \$3 million savings shown on page 15 of the Segal actuarial report after adjusting for (1) the percentage of the plan covering fire fighters and (2) the higher past pay increases for police officers.

I am a member of the American Academy of Actuaries and qualified to make these calculations.

Please feel free to call me with any questions.

Sincerely,
BOLTON PARTNERS, INC.

Thomas Lowman, FSA, MAAA, EA

cc: Chris Platten, IAFF, Local 230 Legal Counsel